EMCO LIMITED

ANNUAL REPORT

1966

DIRECTORS

JOHN W. ADAMS, F.C.A.
London, Ontario

EVERETT J. CHAMBERS, Q.C.
Calgary, Alberta

C. NORMAN CHAPMAN
London, Ontario

PHILIP A. CHESTER, F.C.A.
Winnipeg, Manitoba

HON. LOUIS P. GELINAS
Montreal, Quebec

CHARLES H. IVEY
London, Ontario

C. ROBERT IVEY
Toronto, Ontario

PETER J. IVEY
London, Ontario

RICHARD G. IVEY, Q.C.
London, Ontario

JOHN H. STEVENS
London, Ontario

DOUGLAS B. WELDON
London, Ontario

OFFICERS

JOHN H. STEVENS
Chairman of the Board

PETER J. IVEY
President and General Manager

C. NORMAN CHAPMAN
Executive Vice-President

JOHN W. ADAMS, F.C.A.
Vice-President, Finance and Treasurer

STUART F. SMITH
Vice-President, Manufacturing

RALPH S. MacLEAN
Vice-President, Wholesale Division

A. ROBERT MARTIN, C.A.
Comptroller and Secretary

TRANSFER AGENT & REGISTRAR

ROYAL TRUST COMPANY
Toronto, Montreal and Winnipeg

AUDITORS

PEAT, MARWICK, MITCHELL & CO.
London, Canada.

EMCO LIMITED
ANNUAL REPORT 1966

CONTENTS

FINANCIAL HIGHLIGHTS

	1966	1965
Sales — increased 19.2%	$72,331,000	$60,692,000
Net earnings — increased 13.0%	1,973,000	1,746,000
Earnings per common share — increased 12.2%	1.56	1.39
Dividends per common share — increased 12.9%	.43¾	.38¾
Capital expenditures	2,006,000	778,000
Net worth per common share	11.72	10.50
Return on shareholders' equity (January 1)	15.0%	14.6%

TO EMCO SHAREHOLDERS

In our sixty-first year of operation, sales and after tax earnings have reached new heights, the sixth successive annual increase. Sales advanced 19.2% to $72,330,724. Net earnings from operations increased 13% to $1,972,866 and in addition profit on the sale of real estate increased from $102,925 to $191,866. Net earnings per common share were $1.56 (plus 15¢ profit on the sale of real estate) compared to $1.39 in 1965 (plus 8¢ from real estate profits). Dividends on common shares paid during the year amounted to 43¾¢ per share compared to 38¾¢ per share in 1965 and on March 10, 1967, this payment was increased to an annual rate of 50¢. A more detailed financial analysis of operations is provided on Page 9.

DOMESTIC OPERATIONS

While generally buoyant economic conditions were predominant for most of the year, we have reason to believe that we have increased our share of several markets which we serve. General scarcity of money contributed to a significant reduction in dwelling starts which reduced our Canadian manufacturing activity in the last quarter of the year. In spite of this factor, sales of manufactured products which are primarily for the housing industry equalled sales of the previous year.

Wholesale Division sales and earnings improved and reflect a lesser dependence on dwelling starts and increased penetration of the industrial and commercial segment of the construction industry. A gratifying improvement in return on investment over 1965 was achieved in several important markets.

Late in 1966 the Company formally established a Plastics Division for the production and development of plumbing components which are now manufactured from metals. The invasion of non-metals into plumbing products has been apparent for several years and has been accelerating in the last two. Acceptance is further supported by approval in 1966 of plastics use by a number of Provincial authorities. We are well advanced in plastic technology and applications to the industries we serve.

INTERNATIONAL OPERATIONS

United Kingdom:

Emco Brass Mfg. Co. Limited continued to expand its facilities and market coverage. A senior management change and a computer installation in 1967 should further improve performance.

Germany:

Emco G.m.b.H. produced an improved return on investment in 1966. Expansion of its plant and equipment undertaken in 1966 is now complete. The company is in a good position with respect to manpower and productivity to expand its coverage in the European Common Market.

United States:

Buckeye Division, Emco Wheaton, Inc., completed the move in 1966 of the major part of its operation from Dayton to Conneaut, Ohio. Interruption of operations and profits was as anticipated. After the dislocation caused by the move, operations are returning to normal.

Australia:

Operating results of Axiom-Wheaton Pty. Ltd. were disappointing. An experienced top manager from North America took over operations there in October 1966 charged with correcting the problems and training an Australian successor.

In January 1967, Emco Limited acquired 80% of the ordinary shares of Oil Industry Equipment Pty. Limited who manufacture products similar to those of Axiom-Wheaton Pty. Ltd. The capable management of this company retains a 20% equity interest. The two Australian investments should benefit from these developments.

Japan:

In January 1967 certain events occurred in the Japanese market which enabled Emco-Wheaton (Japan), Limited to acquire a small manufacturing facility in Japan. An Emco manager with twenty years service with the Canadian Company has been appointed General Manager. We believe that the Japanese, Far East, and Southeast Asia markets have potential for Emco-Wheaton (Japan), Limited.

France:

Our distribution location in Paris experienced a small loss. We are satisfied with results to date and expect a profit in 1967. This company purchases its requirements from our English and German subsidiaries.

RESEARCH & DEVELOPMENT

This new Division began operation in the first quarter of 1966. Valuable information is beginning to become available, and an increasing number of projects and problems

from our operating companies are being presented for development and solution.

BOARD OF DIRECTORS

Mr. Philip A. Chester, F.C.A., of Winnipeg, first elected a director in 1960, has indicated that he does not wish to stand for re-election at the forthcoming annual meeting, and it is with reluctance that his associates accept this decision. Your Company has benefited materially from his counsel and business experience contributed over the years.

THE YEAR AHEAD

Sales volume to the end of February 1967 is encouraging in nearly every division and subsidiary. In Canada a firm demand for housing is evident and it appears that funds for this purpose will become available as the pace of industrial and commercial investment slows from 1966 levels. Dwelling starts, after a weak first half-year are expected to be back to a 170,000 annual rate by the fourth quarter of 1967 and for the year as a whole will total about 150,000 units (133,000 units in 1966). Business capital spending is expected to increase 7% in 1967, compared to an increase of 16% in 1966. In our international operations we expect an improvement in earnings.

GENERAL

Manufactured product sales account for approximately 24% of consolidated sales. It is our objective to increase this ratio and we are interested in making manufacturing acquisitions whose product can be marketed through our wholesale branches or liquid handling equipment subsidiaries.

We could not have achieved our results in 1966 without the all-out support of a dedicated group of Emco employees in many countries of the world. On behalf of the shareholders and directors we express our sincere appreciation for a job well done.

On behalf of the Board of Directors —

J. H. Stevens
CHAIRMAN

PRESIDENT

London, Canada, March 10, 1967

CONSOLIDATED BALANCE SHEET

ASSETS

	1966	1965
CURRENT ASSETS:		
Cash	$ 398,294	$ 108,969
Marketable securities, at cost (quoted value 1966 $923,613; 1965 $591,060)	921,800	564,020
Trade accounts receivable, less allowance for doubtful accounts (1966 $606,478; 1965 $761,488)	9,364,806	9,602,690
Inventories at the lower of cost or net realizable value	17,641,312	15,739,951
Prepaid expenses	375,404	319,778
Total current assets	28,701,616	26,335,408
INVESTMENT IN SHARES OF OTHER COMPANIES, AT COST, AND LONG-TERM RECEIVABLES	256,942	264,077
FIXED ASSETS, AT COST, LESS DEPRECIATION:		
Buildings and roadways	6,285,638	5,839,914
Machinery and equipment	5,342,265	4,322,761
	11,627,903	10,162,675
Less accumulated depreciation	5,681,064	5,322,911
	5,946,839	4,839,764
Land	642,012	579,552
Fixed assets, less depreciation	6,588,851	5,419,316
	$35,547,409	$32,018,801

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The accounts of the company's foreign subsidiaries have been converted to Canadian dollars as follows: current assets, current liabilities and long-term debt — at rates current at the year end; fixed assets — at rates current on dates of acquisition; accumulated depreciation and related provisions against income — on the basis of dollar value of related assets; and operating income and other expenses — at average rates for the year.
2. The particulars of the long-term indebtedness are as follows:

	1966	1965
5¼% sinking fund debentures, due October 15, 1973	$2,361,000	$2,552,500
5¾% sinking fund debentures, due June 15, 1985	5,700,000	6,000,000
6½% note payable February 1, 1967 which was renewed on that date and is payable U.S. $5,000 per month, balance due July 1, 1968	563,160	625,675
5½% mortgage payable, due August 1, 1967	5,625	13,125
	8,629,785	9,191,300
Less amounts due within one year included with current liabilities	113,605	113,725
	$8,516,180	$9,077,575

Under the provisions of the trust deeds for the sinking fund debentures, the company is required to retire annually, through the operation of sinking funds, a principal amount of debentures which increases

(a) in the case of the 5¼% debentures, from $193,000 in 1967 to $246,000 in 1972, an aggregate amount of $1,311,000, and
(b) in the case of the 5¾% debentures, from $119,000 in 1967 to $308,000 in 1984, an aggregate amount of $3,600,000.

During the year 1966, the company purchased $191,500 principal amount of the 5¼% debentures and $300,000 principal amount of the 5¾% debentures which were delivered to the trustee for the debenture holders for cancellation. At December 31, 1966 all of the sinking fund obligations for these debentures to that date had been met, and $150,000 principal amount of the 5¼% debentures and $300,000 principal amount of the 5¾% debentures had been tendered to the trustee in respect of the 1967 sinking fund requirement of $193,000 for the 5¼% debentures and $378,000 for the 1967, 1968 and 1969 sinking fund requirements of the 5¾% debentures.

DECEMBER 31, 1966 (with comparative figures for 1965)

LIABILITIES

	1966	1965
CURRENT LIABILITIES:		
Due to banks	$ 3,925,486	$ 1,293,157
Notes payable	108,300	—
Accounts payable and accrued expenses	4,453,710	4,861,612
Dividends payable	158,993	146,622
Current portion of long-term debt	113,605	113,725
Income and other taxes payable	1,987,753	1,667,351
Total current liabilities	10,747,847	8,082,467
LONG-TERM DEBT — Note (2)	8,516,180	9,077,575
MINORITY INTEREST IN SUBSIDIARY COMPANIES	476,255	407,023
SHAREHOLDERS' EQUITY:		
Capital stock — Note (3):		
3% cumulative redeemable preference shares with a par value of $10 each. Authorized 195,133 (1965 — 224,979) shares; issued and outstanding 133,533 (1965 — 163,379) shares	1,335,330	1,633,790
Common shares without any nominal or par value. Authorized 2,200,000 shares; issued 1,235,215 (1965 — 1,221,150) shares — stated value	285,781	198,599
	1,621,111	1,832,389
Consolidated retained earnings	14,186,016	12,619,347
Total shareholders' equity	15,807,127	14,451,736
	$35,547,409	$32,018,801

Approved on behalf of the Board:
J. H. Stevens, Director
J. W. Adams, Director

3. Capital stock:
   (a) The trust deeds relating to the debentures both contain provisions whereby dividends may not be declared or paid, other than stock dividends or cumulative preference dividends, and the company may not effect any reduction to its capital stock which would reduce consolidated net current assets and shareholders' equity (as therein defined) below certain levels. At December 31, 1966, the consolidated net current assets and shareholders' equity (as so defined) were substantially in excess of the minimum levels.
   (b) The provisions with respect to the 3% cumulative redeemable preference shares include a requirement that the company shall apply to the redemption of preference shares, before July 1 in each year, a sum equal to 25% of the consolidated net earnings of the company (as defined in such provisions) in excess of $500,000 for the immediately preceding fiscal year of the company after deducting from the said consolidated net earnings dividends for such fiscal year on the preference shares.
   Pursuant to this requirement 29,846 preference shares were redeemed at par in 1966, an aggregate amount of $298,460 to satisfy the 1965 requirement. To satisfy the 1966 requirement, $357,082 must be applied to the redemption of preference shares on or before July 1, 1967.
   (c) A share option plan was established in 1960 for certain executives whereby 60,000 of the company's authorized and unissued common shares were reserved for issue under the plan. Since the inception of the plan, options have been granted for 47,400 shares and 35,215 shares have been taken up and issued under the plan, including 14,065 shares during 1966 for a cash consideration of $87,182. The balance of the options may be exercised at various dates not later than December 31, 1969 at the following prices per share:

   3,000 shares at $4.0375 per share
   600 shares at $4.75 per share
   2,000 shares at $5.225 per share
   4,025 shares at $9.325 per share
   2,560 shares at $9.815 per share

4. During January 1967 the company acquired 80% of the outstanding shares of Oil Industry Equipment Pty. Limited, Sydney, Australia, for $224,800 cash.

EMCO

STATEMENTS OF CONSOLIDATED EARNINGS AND CONSOLIDATED RETAINED EARNINGS, YEAR ENDED DECEMBER 31, 1966

(with comparative figures for 1965)

	1966	1965
CONSOLIDATED EARNINGS:		
Sales, less sales taxes	$72,330,724	$60,691,840
Operating profit after minority shareholders' interest but before the undernoted items	5,385,007	4,703,953
Income from marketable securities	28,095	18,957
	5,413,102	4,722,910
DEDUCT:		
Depreciation	733,917	657,152
Fees of directors for services as such	15,100	15,400
Interest on bank and other advances	168,171	172,057
Interest on long-term debt	506,048	352,968
	1,423,236	1,197,577
Earnings before taxes on income	3,989,866	3,525,333
Taxes on income	2,017,000	1,779,000
Net earnings for the year	$ 1,972,866	$ 1,746,333
CONSOLIDATED RETAINED EARNINGS:		
Amount at beginning of year	$12,619,347	$11,388,028
ADD:		
Net earnings for the year	1,972,866	1,746,333
Gain on sale of real estate	191,866	102,925
	2,164,732	1,849,258
	14,784,079	13,237,286
DEDUCT:		
Dividends:		
Preference	44,537	52,520
Common	553,526	488,306
Commission and expenses on issue of 5¾% debentures, less applicable income taxes	—	77,113
	598,063	617,939
AMOUNT AT END OF YEAR	$14,186,016	$12,619,347

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Emco Limited and its subsidiary companies as of December 31, 1966 and the statements of consolidated earnings and consolidated retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and the statements of consolidated earnings and consolidated retained earnings present fairly the financial position of the companies at December 31, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

London, Canada

February 27, 1967

Peat, Marwick, Mitchell & Co.

Chartered Accountants

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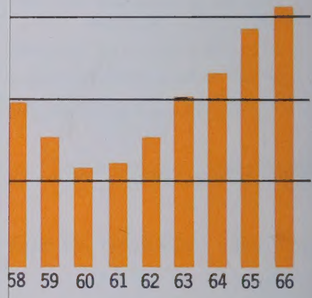
RNINGS PER SHARE

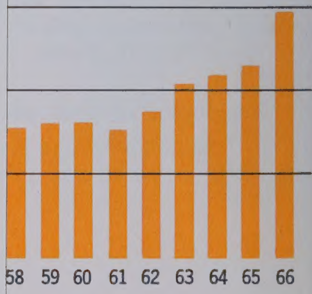
(1957 - 1966)



S, LESS SALES TAXES

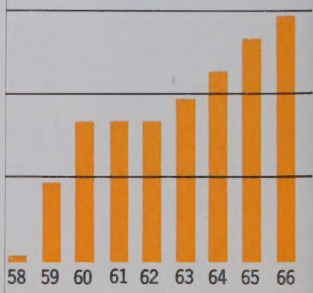
(millions of dollars)

(1957 - 1966)



IDENDS PER SHARE

(1957 - 1966)



Sales, Earnings, and Cash Flow

Consolidated sales (exclusive of sales taxes) increased by 19.2% from $60,691,840 in 1965 to $72,330,724 in 1966. The major increase took place in our Canadian Wholesale Division.

Earnings after taxes on income were as follows:

	1966	%	1965	%
Canadian	$1,633,497	83	$1,229,583	70
Foreign	339,369	17	516,750	30
	$1,972,866	100%	$1,746,333	100%

Net earnings per common share were $1.56 (plus 15 cents per share on the sale of real estate) compared to $1.39 per common share in 1965 (plus 8 cents per share profit on the sale of real estate). Cash flow per common share, including real estate profits, increased from $2.01 to $2.31 per common share.

Our Wholesale Division had an all time record year and most of the earnings increase is attributable to this division. A strong economy contributing to volume increases, tight control of expenses and effective credit control resulting in minor bad debt write-offs, all played their part in producing record earnings for this division. In recent years, this division has developed a substantial industrial business and in spite of a reduction in dwelling starts in 1966, sales of the division increased.

In our foreign operations, several factors tended to reduce earnings. In France and Japan small losses were incurred which we regard as related to the costs of starting "new operations" and we believe should not be recurring. In the United States substantial one-time costs were incurred in moving to our new Conneaut, Ohio plant. These costs also include a severance payment to the Dayton, Ohio employees in satisfaction of a pension obligation which was considered in establishing the purchase price of the assets in 1965. The English and German factories produced record results. The Australian results continued to be unsatisfactory and a loss was incurred. It is proposed to integrate our Australian company with a recent acquisition, Oil Industry Equipment Pty. Limited of Sydney, Australia, in 1967 recouping tax losses and thereby putting the joint operation under capable local management.

Dividends

The cash dividend on common shares was increased to an annual rate of 45 cents in March 1966. On March 10, 1967 this rate was increased to 50 cents per share, an increase of 11.1%. This represents the fifth consecutive year in which cash dividends have been increased.

Working Capital, Receivables, and Inventories

At year end, working capital stood at $17,953,769, a decrease of $299,172 from December 31, 1965. The working capital ratio stood at 2.7 to 1 compared with 3.2 to 1 at December 31, 1965.

During the year, $491,500 (par value) in our debentures were purchased at a discount for surrender to the trustee in satisfaction of our sinking fund obligations on the two outstanding issues. Marketable securities increased with the purchase of $400,000 (par value) in Provincial Government guaranteed bonds. Marketable securities stood at $921,800 at year end.

Accounts receivable, after an allowance for doubtful accounts of $606,478 were $9,364,806, compared to $9,602,690 at December 31, 1965. This represents a decrease of 2.5% and considering that sales increased by 19.2%, we feel this is a very satisfactory performance.

Inventories are valued at the lower of cost or net realizable value determined on the "first in — first out" basis. Full provision has been made, as in past years, for obsolete and slow-moving items. The 1966 inventory to sales ratio was 4.1 compared to 3.9 in 1965. Due to the significance of the wholesale operation, the majority of inventories are in the form of finished goods; (expressed in thousands of dollars)

	1966	%	1965	%
Finished goods	$13,276	75	$11,437	73
In process and parts	3,590	20	3,451	22
Raw material	775	5	852	5
	$17,641	100	$15,740	100

Capital Expenditures and Depreciation

During the year, $2,006,000 was spent on additions to fixed assets in Canada and our foreign operations. In 1967, we propose to spend $1,720,000.

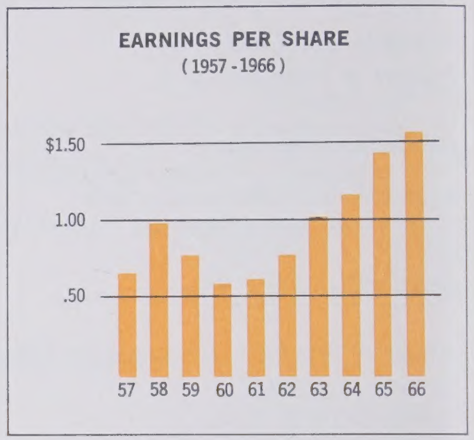
Depreciation charged to operations in 1966 was $733,917 (1965 — $657,152). In general, depreciation was provided on a straight line basis at 10% of cost for machinery and equipment and 5% for buildings. Tools, dies, patterns and moulds are written off in the year of acquisition. The 1966 depreciation charge was in excess of capital cost allowances for income tax purposes.

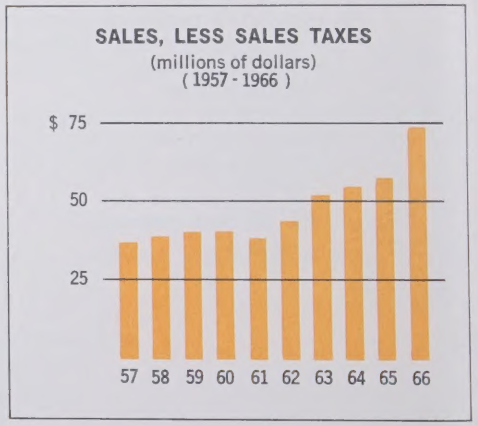
TEN YEAR FINANCIAL SUMMARY

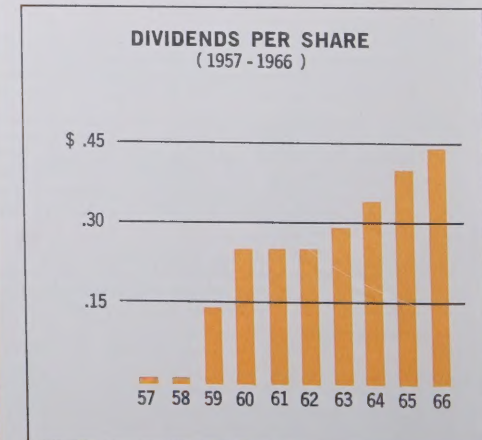
	1966	1965	1964	1963	1962	1961	1960	1959	1958	1957
SALES, LESS SALES TAXES	$72,331	60,692	54,280	50,988	42,664	36,890	38,877	40,329	37,261	35,642
SOURCE AND DISPOSITION OF FUNDS										
SOURCE OF FUNDS:										
Net earnings	1,973	1,746	1,494	1,304	940	781	767	906	1,099	763
Depreciation charged	734	657	605	545	495	468	459	472	398	444
Cash earnings	2,707	2,403	2,099	1,849	1,435	1,249	1,226	1,378	1,497	1,207
Proceeds from sale of real estate	295	287	200	—	567	—	738	—	—	204
Issue of common shares	87	29	15	53	—	2	—	—	—	—
Minority interests	69	363	16	(5)	23	10	—	—	—	—
Issue of 5¾% debentures	—	6,000	—	—	—	—	—	—	—	—
Note payable	—	561	—	—	—	—	—	—	—	—
	3,158	9,643	2,330	1,897	2,025	1,261	1,964	1,378	1,497	1,411
DISPOSITION:										
Capital expenditures — net	2,006	778	1,277	745	738	855	780	1,138	516	660
Redemption of preference shares	298	234	185	94	54	50	94	—	420	395
Dividends — preference	45	53	59	63	65	67	69	35	—	—
— common	554	488	425	362	300	300	225	225	15	15
Redemption of long-term debt	561	184	220	113	166	30	3	400	130	64
Investment in other companies	(84)	(72)	4	192	44	—	—	—	—	—
Other — net	77	(67)	95	(19)	107	19	(29)	21	74	(19)
	3,457	1,598	2,265	1,550	1,474	1,321	1,142	1,819	1,155	1,115
Increase (decrease) in working capital	$ (299)	8,045	65	347	551	(60)	822	(441)	342	296
COMMON SHARE RESULTS										
Net earnings per share	$ 1.56	1.39	1.18	1.02	.73	.60	.58	.73	.92	.65
Gain on the sale of real estate	.15	.08	.13	—	.09	—	.16	—	—	.15
Total earnings per share outstanding at December 31	$ 1.71	1.47	1.31	1.02	.82	.60	.74	.73	.92	.80
Dividends paid per share	.43¾	.38¾	.33¾	.28¾	.25	.25	.25	.12½	.01¼	.01¼
Net worth at December 31	$ 11.72	10.50	9.51	8.56	7.87	7.30	6.96	6.39	5.94	6.58
Return on common shareholders' equity at beginning of the year	% 15.0	14.6	13.8	13.1	10.0	8.6	9.1	12.2	13.9	11.0
CONDENSED BALANCE SHEET										
Current assets	$28,702	26,335	20,428	18,925	16,925	14,835	13,141	13,585	13,324	12,205
Current liabilities	10,748	8,082	10,220	8,782	7,129	5,590	3,836	5,102	4,400	3,623
Working capital	17,954	18,253	10,208	10,143	9,796	9,245	9,305	8,483	8,924	8,582
Investments and long-term receivables	257	264	488	405	220	118	105	127	121	121
Fixed assets — net	6,589	5,419	5,481	4,849	4,685	4,868	4,481	4,704	4,038	3,919
	$24,800	23,936	16,177	15,397	14,701	14,231	13,891	13,314	13,083	12,622
Long-term debt	$ 8,516	9,077	2,708	2,943	3,081	3,261	3,297	3,293	3,694	3,849
Minority interests	477	407	44	28	33	10	—	—	—	—
Preference share capital	1,335	1,634	1,868	2,053	2,147	2,200	2,250	2,344	2,260	880
Common share capital	286	199	169	155	102	102	100	100	100	100
Retained earnings	14,186	12,619	11,388	10,218	9,338	8,658	8,244	7,577	7,029	7,793
	$24,800	23,936	16,177	15,397	14,701	14,231	13,891	13,314	13,083	12,622

NOTE: Amounts shown above are thousands of dollars with the exception of data under heading Common Share Results.

FINANCIAL REVIE







EMCO

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The cash dividend on common shares was increased to an annual rate of 45 cents in March 1966. On March 10, 1967 this rate was increased to 50 cents per share, an increase of 11.1%.

This represents the fifth consecutive year in which cash dividends have been increased.

Working Capital, Receivables, and Inventories

At year end, working capital stood at $17,953,769, a decrease of $299,172 from December 31, 1965. The working capital ratio stood at 2.7 to 1 compared with 3.2 to 1 at December 31, 1965.

During the year, $491,500 (par value) in our debentures were purchased at a discount for surrender to the trustee in satisfaction of our sinking fund obligations on the two outstanding issues. Marketable securities increased with the purchase of $400,000 (par value) in Provincial Government guaranteed bonds. Marketable securities stood at $921,800 at year end.

Accounts receivable, after an allowance for doubtful accounts of $606,478 were $9,364,806, compared to $9,602,690 at December 31, 1965. This represents a decrease of 2.5% and considering that sales increased by 19.2%, we feel this is a very satisfactory performance.

Inventories are valued at the lower of cost or net realizable value determined on the "first in — first out" basis. Full provision has been made, as in past years, for obsolete and slow-moving items. The 1966 inventory to sales ratio was 4.1 compared to 3.9 in 1965. Due to the significance of the wholesale operation, the majority of inventories are in the form of finished goods; (expressed in thousands of dollars)

	1966	%	1965	%
Finished goods	$13,276	75	$11,437	73
In process and parts	3,590	20	3,451	22
Raw material	775	5	852	5
	$17,641	100	$15,740	100

Capital Expenditures and Depreciation

During the year, $2,006,000 was spent on additions to fixed assets in Canada and our foreign operations. In 1967, we propose to spend $1,720,000.

Depreciation charged to operations in 1966 was $733,917 (1965 — $657,152). In general, depreciation was provided on a straight line basis at 10% of cost for machinery and equipment and 5% for buildings. Tools, dies, patterns and moulds are written off in the year of acquisition. The 1966 depreciation charge was in excess of capital cost allowances for income tax purposes.

EMCO LIMITED / PRINCIPAL DIVISIONS AND SUBSIDIARIES

EMCO LIMITED, BOX 3300, TERMINAL "A," LONDON, ONTARIO, CANADA

DOMESTIC OPERATIONS

Canadian Clyde Tube Forgings Limited, Etobicoke, Ontario Distributor of steel welding fittings for industry.	100%
Emco Limited, London Factory Division, London, Ontario Manufacturer of plumbing, heating and industrial piping products for sale to wholesalers.	100%
Emco Limited, Wholesale Division, 24 Branches across Canada Distributors of plumbing, heating and industrial piping supplies to mechanical contractors and industry.	100%
Emco Limited, Gas Division, Weston, Ontario Distributor of specialty products for the natural and propane gas industries.	100%
Emco Limited, Plastics Division, Brampton, Ontario Manufacturer of plastic plumbing and piping components.	100%
Emco-Wheaton Limited, Etobicoke, Ontario Manufacturer and distributor of liquid handling equipment for the petroleum and petro-chemical industries.	100%

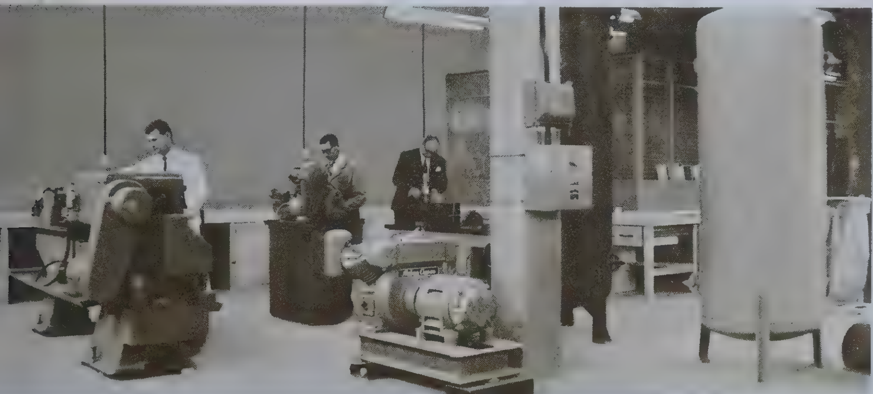
INTERNATIONAL OPERATIONS

Axiom-Wheaton Pty. Ltd., Melbourne, Australia Manufacturer of liquid handling equipment for the petroleum and petro-chemical industries in Australia.	67%
Buckeye Division, Emco Wheaton, Inc., Dayton, Ohio Manufacturer and distributor of specialty equipment for the petroleum industry in the U.S.A.	51%
Emco G.m.b.H., Kirchhain, Germany Manufacturer of liquid handling equipment for the petroleum and petro-chemical industries in Western Europe.	76%
Emco Brass Mfg. Co. Limited, Margate, England Manufacturer of liquid handling equipment for the petroleum and petro-chemical industries in the United Kingdom and for agents throughout the world.	100%
Emco Buckeye S.A., Paris, France Distributor of liquid handling equipment for the petroleum and petro-chemical industries in France.	85%
Emco-Wheaton (Japan) Limited, Tokyo, Japan Distributor of liquid handling equipment for the petroleum and petro-chemical industries in Japan and the Far East.	80%
*Oil Industry Equipment Pty. Limited, Sydney, Australia Manufacturer of liquid handling equipment for the petroleum and petro-chemical industries in Australia.	80%
Research and Development Group, Margate, England Tests and reviews existing products and develops new products for Emco's petroleum and petro-chemical manufacturing subsidiaries.	100%

*Acquired 1967

RESEARCH AND DEVELOPMENT

BUILDING
Modern building at Margate, Kent, England houses the new Research and Development Group. The engineers and technicians are engaged here in testing, reviewing and improving performance of existing products and the development of new products.



DEVELOPMENT AND TEST WORKSHOP
The development and test workshop contains equipment for research purposes. Included are lathes, drills, grinders for making up prototype models of products.

LABORATORY
Laboratory is equipped for experimental work in rubber, plastics, etc., to determine characteristics of these materials as seals under various conditions.

Improvement in existing product design and development of new products are basic to corporate growth.

In 1966 a team of engineers and technicians occupied Emco's new Research and Development facilities in Margate, Kent, England. Their objective is to maintain Emco's position as a leader in the manufacture of liquid handling equipment for the petroleum and petro-chemical industries around the world.

Research and Development is designed to serve Emco's international manufacturing subsidiaries and associated companies in Canada, U.S.A., England, Germany, France, Japan and Australia. Testing, evaluating and improving performance of present products, coupled with design and development of new ones to meet constantly changing customer requirements are important activities.

Close liaison is maintained with the engineering sections of operating subsidiaries. Research and Development meetings attended by representatives of each Emco organization are held each year to ensure maximum cross-fertilization of technical information.

WHAT HAS BEEN HAPPENING IN '66

EMCO — FOR EVERYTHING THAT FLOWS 1

That is the new corporate identity description created and put into use in 1966 by the Company.
The reasons for its selection were many. It simply, but forcefully, describes the Company's area of operation. It also describes the all-encompassing nature of our business. It is quickly read and easy to remember.
The new Company slogan began to appear in advertising and sales promotion material during 1966. It will be used eventually as an identification line on all Emco advertising material.

MANAGEMENT DEVELOPMENT 2

One of the Company's most important activities is the continuous development of management skills. Special courses are offered selected employees to develop the talents necessary to ensure depth of management and supervisory personnel. The group at right, for example, were chosen last year to attend an intensive 16-day management development course at Head Office. They came from Wholesale Branches across Canada, returning to their regional offices with a fuller understanding of management functions and responsibilities.

GAS DIVISION ON THE MOVE 3

During 1966 Emco's Gas Division moved into a new building in Weston, Ontario. The move was made necessary by the need for more efficient warehouse and office facilities. The 9,000 square foot building is equipped with modern material handling equipment which will reduce warehousing costs and improve customer service. The Gas Division is primarily engaged in supplying a wide range of equipment to customers in the gas industry. Products manufactured and distributed include the Rego line of propane gas equipment, Corken pumps and compressors, Mitchell Vaporizers, and Rochester gauges. Shown are the General Manager and an engineer of the Gas Division discussing a propane regulator.

EMCO IN ACTION ABROAD 4

The Emco loader unit seen at right is in an installation at an Esso refinery depot at Cologne, West Germany. It was supplied by the Company's German subsidiary, Emco G.m.b.H. It is one of 36 Emco long range boom type loaders installed at the site. This permits 60 tank trucks to be loaded every hour from overhead storage facilities.
The Company's overseas subsidiaries are all making significant gains in providing petroleum handling equipment to the world's petro-chemical industry.

COMPUTER FOR EMCO, ENGLAND 5

A significant step forward will be taken by the Company's subsidiary in Margate, England in 1967 when a new computer is installed during the latter part of the year.
The computer, a Honeywell Series 120, will be compatible with equipment being used in the Company's London, Ontario, Head Office which will permit establishment of uniform programming procedures. The new computer at Margate will be used at first to improve procedures for inventory management and production control. Later a fully-integrated management reporting program will be developed covering purchase accounting, payroll, sales accounting and costing.

FOUNDRY CAPACITY INCREASED 6

Improvements were undertaken in the London factory foundry during 1966 which increased production capacity. The gain was made by the installation of new equipment and material handling systems in available foundry floor space. The new equipment includes a new high-speed melting furnace, moulding machine, a sand mixer, pneumatic sand handling facilities and a new electric sub-station to handle the increased power demands now required by the foundry.
Increased efficiency is demonstrated by the fact that the new furnace shown at right will melt four times more metal per hour than the old units.

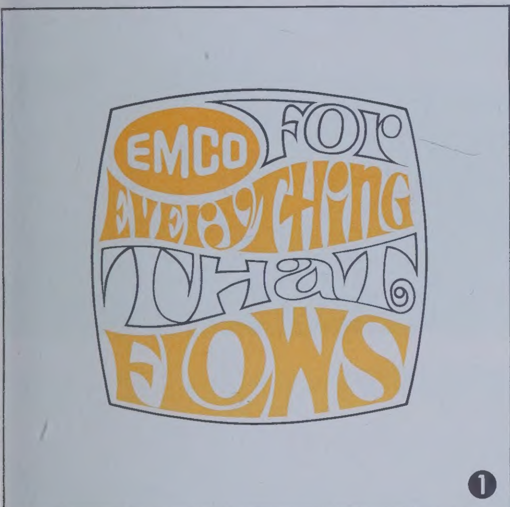
EMCO SUPPLIES THE WORLD 7

The quality Emco products being stacked in preparation for shipment at right are destined for Trinidad.
It is one of 19 countries around the world to which Emco products have been exported.
The Company continues to aggressively develop export markets for all its products and is optimistic that its share of these international markets will increase.
It is only through constant evaluation of both domestic and export markets — and the best way to fill the individual product and marketing needs in each area — that Emco will continue to maintain its leading position in the industry.

DESIGN '67 AWARDS 8

Emco products have achieved the distinction of being officially approved to display "Canada — Design '67" Award tags. The awards are given by the Canada Design Council, an organization functioning under the auspices of the Federal Department of Industry.
The Company entered six products — three each from its Doric and Classic lines — and all received the coveted awards. Only a total of 650 were selected from more than 2,400 products entered.
The Canada Design Council's panel of judges are chosen from industry, the design professions, distribution and retail organizations.
Products selected for the Award are judged on the basis of good design, performance, ease of maintenance, durability and appearance.

EMCO



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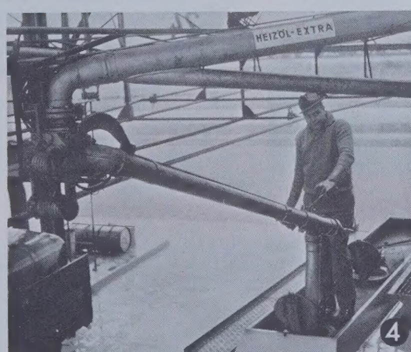

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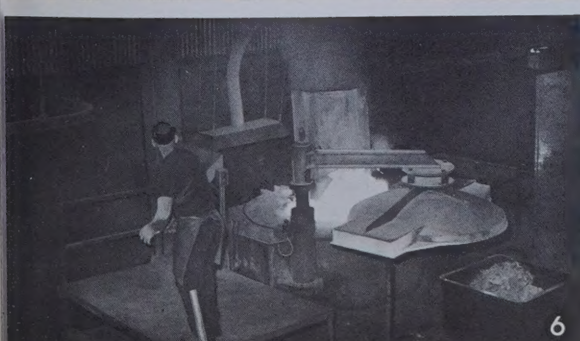
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EMCO ON THE MOVE

RELOCATIONS FOR WHOLESALE DIVISION

The Wholesale Division took major steps in 1966 to improve facilities and customer service across Canada. Three relocations into new buildings were undertaken, and one sub-branch gained the status of a full branch to reflect the growth in its area.

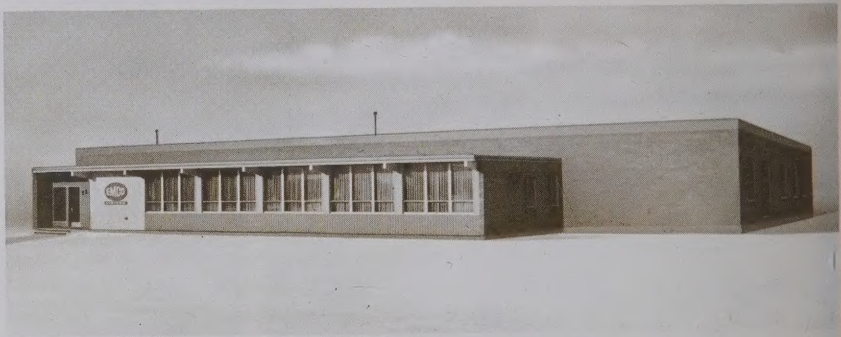
The Calgary branch was relocated in a new one-level building on the outskirts of the city. The branch in Saint John, N.B., also moved into a new single-level location.

The Prince George, B.C. sub-branch, besides moving into a modern, one-storey building in a new industrial sub-division, was made a full branch operation. Its new quarters permit efficient storage of an enlarged inventory as well as utilization of latest material handling equipment.

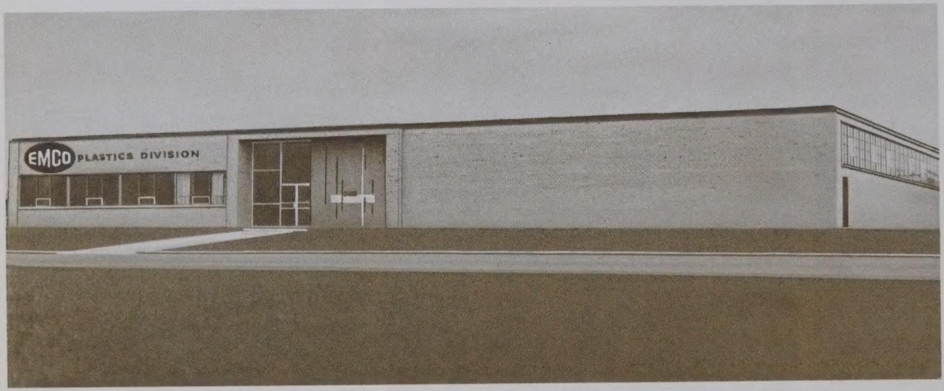
These improvements, it is expected, will be reflected in reduced overhead costs besides providing Emco customers with improved service.

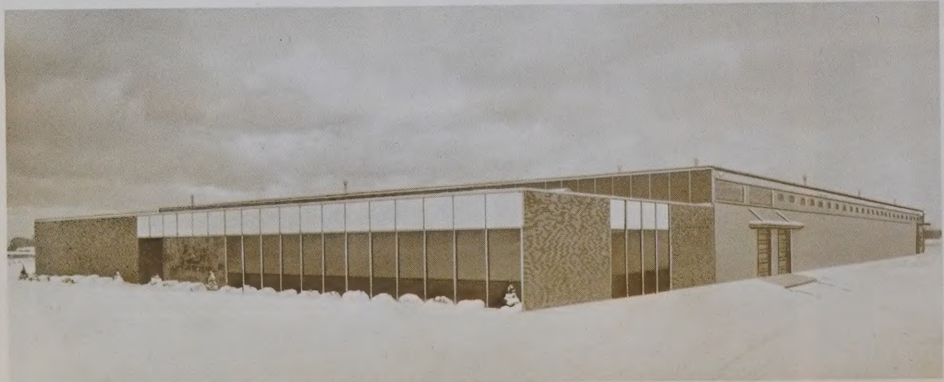
SAINT JOHN, NEW BRUNSWICK

PRINCE GEORGE, B.C.



CALGARY, ALBERTA





PLASTICS DIVISION ESTABLISHED

An important Emco strength resides in its accumulated knowledge in the design and application of products for the transmission and control of liquids and gases. New basic materials and methods of production permitting lower costs with equal or improved performance are important to continued growth.

In recognition of this fact, Emco has established a Plastics Division which is now producing a number of items approved for use in piping systems.

Historically new materials seldom replace conventional ones overnight. If proven satisfactory in all respects, they secure a share of the available market and compliment the conventional. Such is the case with plastics versus metals. Your company is actively involved in both.

BUCKEYE DIVISION

The Buckeye Division of Emco Wheaton, Inc. was established to provide the Company entry into the vast and important U.S. market for engineered liquid handling equipment.

Originally located in a multi-storey downtown location in Dayton, Ohio, it was moved, during 1966, into a new, one-floor 70,000 square foot plant and administration building in Conneaut, Ohio. The relocation was successful with little disruption of product delivery to customers.

The Division's products, which complement existing Emco lines, are also successfully marketed through other Company subsidiaries.

EMCO LIMITED, BOX 3300, LONDON, ONTARIO, CANADA